

Tuesday, September 29, 2020 | update

Comarch: buy (upgraded)

CMR PW; CMR.WA | IT, Poland

Undeserved Sell-Off, Global Contracts

Comarch stock has fallen nearly 8% in the past month for no apparent reason. In the first half of 2020, the Company achieved 56% of our full-year earnings estimate with EBITDA of PLN 118m, and if seasonal patterns hold it should deliver even better results in the second half of the year. The coronavirus pandemic is having even less of an effect on Comarch than we had originally assumed, and after updating our models to account for this we are now expecting FY2020 EBITDA of PLN 234m. Our new target price for CMR at PLN 247.60 indicates upside potential of more than 21% which prompts an upgrade from hold to buy. Comarch stock is currently trading at 6.6x 2020E EV/EBITDA and 17.5x P/E, showing discounts to the corresponding peer multiples of 42% and 21%, respectively – huge gaps which we see as narrowing before long, supported by the global contracts that the Company has recently added to its backlog, including a PLN 300m high-profile contract with Vodafone New Zealand, which strengthen its presence in the global market.

Financial Results for Q2 2020

At PLN 331.0m Comarch's 2020 Q2 revenue was down only 1.0% from the year-ago level. By segment, sales of TMT solutions fell 41.8% to PLN 45.1m, putting a squeeze on the total quarterly gross margin which contracted from 28.1% to 25.7%. At the same time, SG&A expenses decreased by 10.2% year on year to PLN 61.0m. Other operating activity provided a PLN 2.8m gain in Q2. Comarch set up provisions for doubtful accounts in the amount of PLN 4.3m in Q2, but the previous quarter it had reversed charges in the amount of PLN 6.7m. After all this, EBITDA in Q2 2020 exceeded our forecast by 14% at PLN 51.5m, and net profit came in at PLN 20.4m. Part of the reason behind the successful second-quarter results were favorable FX movements. Further, the coronavirus pandemic had no effect whatsoever on the period's sales. Orders from SMEs in Poland and DACH increased relative to the year-ago levels, rising at respective rates of 4.5% and 29.8%.

Outlook After Q2'20

Comarch revealed at the second-quarter earnings call that its remaining backlog for 2020 was 7-8% higher than this time last year, and that in Q2 it had completed and restated for IFRS 15 several big TMT orders, resulting in declines in the segmental revenue which are not likely to recur in subsequent periods. Comarch has landed several major bookings recently which will help to reinforce its position in global markets. These include a 10-year loyalty management software deal with the Saudi Arabian airline Saudia, an assignment from the Swiss telecom Sunrise Communications, and a PLN 300m 10-year software and systems maintenance contract with Vodafone New Zealand.

(PLN m)	2018	2019	2020E	2021E	2022E
Revenue	1,369.6	1,437.4	1,530.9	1,620.0	1,699.8
EBITDA	152.7	228.3	233.8	237.5	240.2
EBITDA margin	11.2%	15.9%	15.3%	14.7%	14.1%
EBIT	87.5	143.4	147.0	149.6	149.4
Net income	30.6	104.8	94.7	106.8	106.7
P/E	54.2	15.8	17.5	15.5	15.5
P/CE	17.3	8.7	9.1	8.5	8.4
P/B	1.9	1.7	1.6	1.4	1.3
EV/EBITDA	10.7	7.0	6.6	6.3	6.1
DPS	1.50	1.50	1.50	1.50	1.50
Dividend Yield	0.7%	0.7%	0.7%	0.7%	0.7%

Current Price	PLN 204.00
Target Price	PLN 247.60
Market Cap	PLN 1.66bn
Free Float	PLN 1.08bn
ADTV (3M)	PLN 1.3m

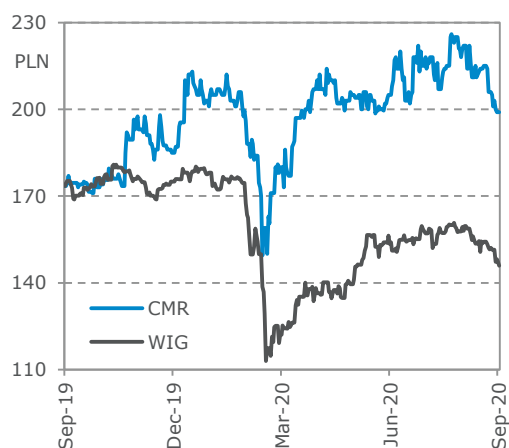
Ownership

Janusz Filipiak	24.55%
Elżbieta Filipiak	10.40%
NN PTE	10.41%
MetLife PTE	10.34%
Others	44.29%

About

Comarch is a software developer and integrator with a presence spanning over 100 countries on six continents. The Company has earned top marks in the Gartner Vendor Rating and the Truffle 100. Comarch operates its own data centers which support the delivery of services across various models, including SaaS, Cloud, and Managed Services.

CMR vs. WIG



Company	Target Price		Rating	
	new	old	new	old
Comarch	247.60	220.30	buy	hold

Company	Current Price	9MTP	Upside
Comarch	204.00	247.60	+21.4%

Forecast Update	2020E	2021E	2022E
Revenue	+4.6%	+1.7%	+0.4%
EBITDA	+10.2%	+2.2%	-0.7%
Net Profit	+28.2%	+3.7%	-1.1%

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Key Risks

Coronavirus Outbreak Among Employees

Like all Polish businesses, Comarch has had to adapt its workplace to new health and safety guidelines under pandemic conditions. The Company has complied with all the rules and restrictions issued by the government and health authorities, including by shifting to a work-from-home model on a broad scale, and by switching to remote conferencing tools in its communications with customers and business partners. Despite all these measures, the risk remains that normal business operations will get disrupted because of a coronavirus case among employees or associates.

Loss Of Business Due To The Coronavirus Epidemic

The coronavirus crisis can be expected to have a negative effect on the technology sector through reduced orders for services and solutions. Comarch runs a well-diversified business model which offers a broad product mix to customers from different sectors of the economy and different geographic regions. The Company generates more than 60% of its revenues from recurring sources, but the remaining 40% are derived from the SME sector (>20% in 2019) and the retail sector (>17% in 2019), where the negative effects of the coronavirus crisis might take longer to overcome than in other industries.

Increase in Labor Costs

Payroll accounts for a major part of Comarch's operating expenses. In 2019 its average pay, which is among the highest in Poland, increased by several percent. Comarch tries to mitigate pay pressures by taking on fresh graduates as interns and then hiring them full time. Internships offset staff attrition, however Comarch still faces risk of greater turnover and an unavailability of skilled tech specialists at its current pay rates.

Legislative Risk

Comarch's operations are governed by Polish laws and regulations, including in particular the Labor Law which determines the size of the Company's payroll expenses. Certain changes in the labor laws might drive increases in the employment costs of business.

Investment in Real Estate and Non-Core Assets

Comarch has invested substantial amounts of money in its own office buildings and data centers, and while some of these investments can be considered necessary we feel others could have been eschewed in favor of higher dividends. As a reminder, Comarch owns the MKS Cracovia local football team, based in Krakow, for which it wants to build new training facilities at a cost of about PLN 40m. To be fair, Cracovia did get paid handsomely in 2018 for two of its players sold to foreign clubs.

Low Dividends

Comarch enjoys a healthy balance-sheet position with net cash of PLN 58m reported at the end of 2019 – another year in a row ended with a cash surplus. Comarch generates high operating cash flow, But it pays very modest dividends (PLN 1.50 per share in 2019). In our opinion, the Company can afford much more generous payouts.

Liquidated Damages

Comarch is always at risk of claims under liquidated damages and warranty clauses contained in its many contracts with customers and business partners.

Exchange Rate Risk

Comarch generates a substantial portion of revenues in euros and dollars, causing EBIT to fall any time the zloty, which is the main currency in which the Company incurs expenses, strengthens vis-a-vis these currencies.

Public Procurement

Comarch's exposure to the public sector puts it at risk of low contract margins due to high competitive pressure, and results in slow periods in terms of new business acquisition. For example, back in 2017 Comarch outbid others in a 374m tender for systems maintenance for a public authority with a price quote of PLN 242m Compared to PLN 431m offered by the highest bidder. Despite having won the call, Comarch's shares fell after the announcement on rumors that at such a cheap price the contract left little by way of profit margin.

Risk Of Failed Acquisitions

Comarch buys other tech companies because it wants to gain access to new tools and new markets. In some cases, the investments do not bring the desired benefits, as was the case with Thanks Again, a US-based travel loyalty company bought in 2015 for \$8 million and written off completely by 2018 after a string of failures.

Transparency In Market Communications

The way Comarch communicates with investors and analysts seems to us less transparent than practiced by listed tech peers like Asseco Poland and Asseco South Eastern Europe. While others share up-to-date and detailed backlog status on a regular basis, Comarch offers very little by way of specifics, as evidenced by the vague statement at the Q1'19 earnings conference that growth in the order book at the time had reached "solid teens."

Valuation

Using DCF analysis and relative valuation, we set our new 9-month price target for Comarch at 247.60 per share.

(PLN)	weight	price
Relative Valuation	40%	285.93
DCF Analysis	60%	197.25
	price	232.72
9M target price		247.60

DCF Valuation

Assumptions:

- The forecast period is FY2020 through FY2029.
- The risk-free rate in the forecast period is 3.50%.
- We assume FCF after the forecast period will grow at a rate of 2.0%.

- Net cash is as of 31 December 2019 (PLN 58m under IFRS16) adjusted for PLN 12.2m dividend. Accordingly, our future estimates take into account depreciation of the right-of-use assets but do not factor in lease payments.
- D&A expenses in the terminal period are equal to CAPEX and lease payments.
- Beta = 1.0x.

DCF Model

(PLN m)	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2029+
Revenue	1,531	1,620	1,700	1,771	1,843	1,914	1,983	2,050	2,119	2,190	
change	6.5%	5.8%	4.9%	4.2%	4.1%	3.8%	3.6%	3.4%	3.4%	3.4%	
EBITDA	233.8	237.5	240.2	246.5	252.7	259.3	265.4	271.3	277.1	282.7	
EBITDA margin	15.3%	14.7%	14.1%	13.9%	13.7%	13.6%	13.4%	13.2%	13.1%	12.9%	
EBIT	147.0	149.6	149.4	152.7	155.5	158.7	161.1	163.8	167.1	170.8	
EBIT margin	9.6%	9.2%	8.8%	8.6%	8.4%	8.3%	8.1%	8.0%	7.9%	7.8%	
Tax on EBIT	38.8	40.2	40.2	41.0	41.8	42.7	43.3	44.0	44.9	45.9	
Effective tax rate	26.4%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	
NOPLAT	108.2	109.4	109.3	111.6	113.7	116.0	117.8	119.8	122.2	124.9	
CAPEX	-82.1	-105.1	-103.5	-81.9	-85.0	-85.7	-86.3	-88.1	-88.9	-92.4	
Working capital	-11.9	-18.7	-16.4	-17.0	-18.2	-20.2	-21.2	-22.2	-23.7	-25.1	
FCF	101.0	73.5	80.1	106.5	107.7	110.8	114.6	117.0	119.6	119.3	121.7
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	
discount factor	97.3%	89.7%	82.7%	76.2%	70.2%	64.7%	59.6%	54.9%	50.6%	46.6%	
PV FCF	98.3	65.9	66.2	81.1	75.6	71.6	68.3	64.2	60.5	55.6	
WACC	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Cost of debt	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	26.4%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%	26.9%
Net debt / EV	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

FCF growth after the forecast period	2.0%
Terminal value	1,865
Present value of terminal value	869
Present value of FCF in the forecast period	707
Enterprise value	1,577
Net debt (2019 eop, IFRS16)	-46
Other noncore assets	0
Minority interests	19
Million shares outstanding (adj.)	1,604
Equity value per share (PLN)	197.2
9M cost of equity	6.4%
9M target price (PLN)	209.9

EV/EBITDA('20) at target price	6.7
P/E('20) at target price	16.9
TV / EV	55%

Sensitivity Analysis

	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	3.0%	4.0%
WACC +1.0 p.p.	221.3	232.1	244.8	260.0	278.7
WACC +0.5 p.p.	206.5	215.5	225.9	238.1	252.9
WACC	193.8	201.2	209.9	219.9	231.8
WACC -0.5 p.p.	182.6	188.9	196.1	204.5	214.1
WACC -1.0 p.p.	172.8	178.1	184.2	191.2	199.2

Relative Valuation

We compared Comarch with a peer group based on forward P/E and EV/EBITDA multiples. Each of the forecast years FY2020, 2021, and 2022, is assigned an equal weight.

Multiples Comparison

	EV/EBITDA			P/E		
	2020E	2021E	2022E	2020E	2021E	2022E
Sap AG	18.9	16.9	15.2	26.9	23.5	20.9
Oracle Corp	11.3	10.7	10.4	15.7	14.4	13.2
CAP Gemini	11.4	10.2	9.5	17.3	14.9	13.0
Sage Group PLC	16.8	17.1	15.9	27.3	26.5	23.8
Atos	6.4	6.1	5.6	10.0	9.3	8.6
Software AG	14.5	13.4	12.2	24.3	22.2	20.1
Indra Sistemas	10.1	6.1	5.4	25.8	9.0	7.4
Fiserv Inc	16.0	14.1	12.8	23.6	19.3	16.7
Computacenter PLC	10.5	10.6	10.9	20.7	20.9	20.2
Asseco Poland	5.2	4.9	4.4	14.3	12.8	12.0
Maximum	18.9	17.1	15.9	27.3	26.5	23.8
Minimum	5.2	4.9	4.4	10.0	9.0	7.4
Median	11.3	10.6	10.7	22.2	17.1	15.0
Comarch	6.6	6.3	6.1	17.5	15.5	15.5
Premium / discount	-41.6%	-40.3%	-43.0%	-21.0%	-9.3%	4.0%
Implied Valuation						
Value per share (PLN)	348.7	338.3	348.9	258.2	225.0	196.2
Multiple weight		50%			50%	
Year weight	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%
Equity value per share (PLN)	285.9					

Business Update

2020 Q2 Results

At PLN 331.0m, Comarch's 2020 Q2 revenue was down only 1.0% from the year-ago level. Of the total, PLN 260.1m came from IT Services and PLN 48.3m was generated from Proprietary Software – amounts which as a percentage of total sales represent, respectively, a year-over-year decline from 80.0% to 78.6% and a rise from 14.5% to 14.6%.

2020 and 2019 Q2 revenues by operating segment

(PLN m)	2Q'20	2Q'19	YoY
IT Services	260.1	262.4	-0.9%
Proprietary Software	48.3	47.6	1.5%
Third Party Software	7.2	2.8	154.5%
Proprietary Hardware	1.8	0.5	249.9%
Third Party Hardware	2.8	2.2	27.9%
Other	10.8	12.3	-12.2%

Source: Comarch, mBank

By customer segment, sales of TMT solutions fell 41.8% to PLN 45.1m in Q2 2020, and sales to the public sector decreased 17.5% to PLN 26.8m. On the other hand, divisions that managed to improve on year-ago sales included Finance & Banking (+38.8%) and Retail & Services (+23.0%).

Comarch explained the substantial slump in quarterly TMT sales with the fact that it completed and restated for IFRS 15 several big orders in the period. In future quarters the segmental revenues are expected to improve.

The coronavirus pandemic had no effect whatsoever on quarterly. Orders from SMEs in Poland and DACH increased relative to the year-ago levels, rising at respective rates of 4.5% and 29.8%.

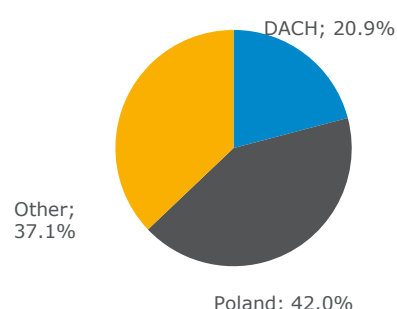
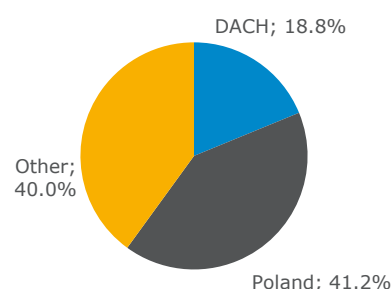
2020 and 2019 Q2 revenues by customer segment

(PLN m)	2Q'20	2Q'19	dynamika
TMT	45.1	77.5	-41.8%
Finance & Banking	64.0	46.1	38.8%
Retail & Services	68.7	55.9	23.0%
Manufacturers & Utilities	37.0	39.9	-7.4%
Public Sector	26.8	32.5	-17.5%
SMEs, Poland	40.7	37.7	8.0%
SMEs, DACH	30.2	23.0	31.3%
Healthcare	12.4	6.7	84.5%
Other	6.0	8.4	-28.4%

Source: Comarch, mBank

By geographic segment, domestic sales in Q2 2020 registered a 1.1% decline from the year-ago level at PLN 136.3m, against a 2.4% rise to PLN 194.6m in export revenues, which accounted for 58.8% of total quarterly sales (vs. 58.0% in Q2'19).

Geographic sales breakdown, Q2 2019 (top) vs. Q2 2020 (bottom)



Source: Comarch, mBank estimate

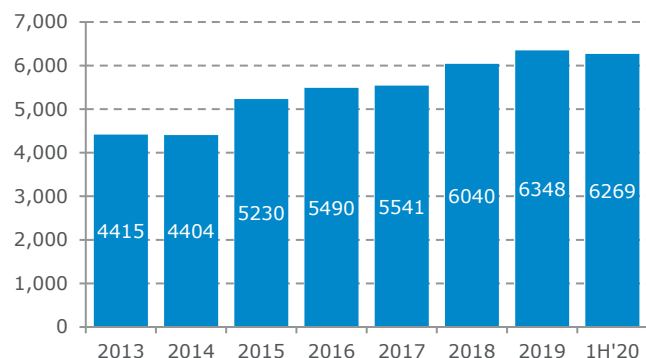
The gross profit margin amounted to 25.7% in Q2 vs. our estimate of 26.9% and a year-ago margin of 28.1%. SG&A expenses decreased by 10.2% year on year to PLN 61.0m. Other operating activity provided a PLN 2.8m gain in Q2. Comarch set up provisions for doubtful accounts in the amount of PLN 4.3m in Q2, but the quarter before it had reversed charges in the amount of PLN 6.7m. After all this, EBITDA in Q2 2020 exceeded our forecast by 6.6% at PLN 51.5m.

FX movements had a tangible impact on second-quarter profits, with adjustments to foreign-currency receivables and payables producing a PLN 7.8m charge against quarterly EBIT. On the other hand, net profit received a one-time boost of PLN 8.0m in Q2 thanks to financing activity, including derivatives valuation and the recognition of a resulting deferred tax asset.

The bottom-line result came out at PLN 20.4m after decreasing by PLN 5.6m due to substantial deferred tax adjustments.

Comarch's employee headcount decreased by 1.2% in H1 2020 to 6,269 as of 30 June. Base salary expenses in the first half of the year were up by 6.1% compared to H1 2019.

Comarch's employee headcount



Source: Comarch, mBank

Comarch generated very strong operating cash flow of PLN 124.3m in H1 2020 vs. PLN 69.5m in H1 2019 after substantial working capital changes.

Capital investment in the first half of the year was targeted mostly at development of new solutions, especially cloud solutions, such as the recently-launched Comarch Infraspaces Cloud. In April, Comarch completed the acquisition of the French healthcare solutions company 2CSI for €2.1m. Recent M&A activity also includes the purchase of Phoenix in the USA. Comarch also continues to work on designs for the Data Center purposes. Other ongoing capital projects include a new training facility for the MKS Cracovia sports teams.

Summary of 2020 and 2019 Q2 results

(PLN m)	2Q'20	2Q'19
Revenue	331.0	327.8
COGS	-245.8	-235.6
Gross profit margin	85.1	92.2
	25.7%	28.1%
SG&A	-61.0	-68.0
Other operations (net)	2.8	1.0
EBIT margin	26.9	25.2
	8.1%	7.7%
Financing activity	9.0	1.5
Tax	-15.6	-6.9
Noncontr. interest	0.0	-0.4
Net income	20.4	20.2
D&A expenses	24.6	19.9
EBITDA margin	51.5	45.1
	15.6%	13.7%

Source: Comarch

Future Outlook

Comarch revealed at the second-quarter earnings call that its remaining backlog for 2020 was 7-8% higher than this time last year, and that it included several noteworthy bookings such as the 10-year loyalty management software contract with the Saudi Arabian airline Saudia, an assignment from the Swiss telecom Sunrise Communications to deliver the IoT Connect product custom designed to work with Sunrise's ecosystem, and a PLN 300m 10-year framework systems maintenance agreement with Vodafone New Zealand.

Comarch fulfilled 55.7% of our FY EBITDA forecast in the first half of the year, and so we opt to raise this forecast as follows:

Forecast Revision

(PLN m)	New Forecast	Old Forecast
Revenue	1,531	1,463
EBITDA	234	212
Net Profit	95	74

Source: mBank

Earnings History and Future Projections*

(PLN m)	2018	2019	2020P	2021P	2022P	2023P	2024P
Revenue	1,369.6	1,437.4	1,530.9	1,620.0	1,699.8	1,770.7	1,842.7
change	24.3%	5.0%	6.5%	5.8%	4.9%	4.2%	4.1%
Cost of sales	1,008.0	1,016.7	1,100.2	1,166.5	1,231.0	1,287.3	1,344.7
Gross profit	361.6	420.7	430.8	453.6	468.8	483.4	498.1
Other operating income	20.2	34.3	20.0	0.0	0.0	0.0	0.0
Sales and marketing costs	139.4	145.5	147.3	160.5	171.8	178.9	186.2
Administrative expenses	106.1	127.9	130.5	139.0	144.5	150.3	156.3
Other operating charges	48.7	38.2	26.0	4.5	3.0	1.5	0.0
EBIT	87.5	143.4	147.0	149.6	149.4	152.7	155.5
margin	6.4%	10.0%	9.6%	9.2%	8.8%	8.6%	8.4%
D&A expenses	65.2	84.9	86.8	87.9	90.7	93.9	97.2
EBITDA	152.7	228.3	233.8	237.5	240.2	246.5	252.7
margin	11.2%	15.9%	15.3%	14.7%	14.1%	13.9%	13.7%
Financing activity	-14.0	-1.0	-18.4	-3.5	-3.5	-3.5	-3.5
Share in profits/losses of associates	-11.1	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	62.5	142.4	128.6	146.1	145.9	149.2	152.0
margin	4.6%	9.9%	8.4%	9.0%	8.6%	8.4%	8.2%
Tax	30.0	36.9	33.9	39.3	39.2	40.1	40.9
Net Income	30.6	104.8	94.7	106.8	106.7	109.1	111.1
margin	2.2%	7.3%	6.2%	6.6%	6.3%	6.2%	6.0%
Shares outstanding at eop (millions)	8.13	8.13	8.13	8.13	8.13	8.13	8.13
EPS	3.76	12.89	11.64	13.13	13.12	13.41	13.66
CEPS	11.78	23.33	22.32	23.94	24.28	24.95	25.61
ROAE	3.5%	11.4%	9.4%	9.7%	8.9%	8.4%	8.1%
ROAA	1.9%	5.9%	5.0%	5.3%	4.9%	4.8%	4.6%

*IFRS 16 figures from 2019

Balance Sheet*

(PLN m)	2018	2019	2020P	2021P	2022P	2023P	2024P
ASSETS	1,740.3	1,842.7	1,966.9	2,093.6	2,219.0	2,342.1	2,439.1
Fixed assets	821.2	796.7	811.6	848.3	880.6	888.2	895.5
Property, plant and equipment	551.1	539.6	564.5	611.7	655.1	674.4	694.4
Investment property	32.7	36.6	36.6	36.6	36.6	36.6	36.6
Goodwill	42.2	40.7	40.7	40.7	40.7	40.7	40.7
Other intangible assets	59.4	56.3	46.3	35.8	24.7	12.9	0.3
Noncurrent prepayments	2.8	2.5	2.5	2.5	2.5	2.5	2.5
Deferred income tax assets	35.0	35.0	35.0	35.0	35.0	35.0	35.0
Other (including right-of-use assets)	98.0	85.9	85.9	85.9	85.9	85.9	85.9
Current assets	919.1	1046.0	1155.3	1245.4	1338.5	1453.9	1543.5
Inventory	97.2	90.7	99.2	106.2	113.2	119.6	126.1
Trade and other receivables	435.4	430.2	462.7	494.6	524.1	551.4	579.9
Long-term contract receivables	134.8	193.9	206.5	218.5	229.3	238.8	248.5
Other	5.8	8.5	8.5	8.5	8.5	8.5	8.5
Cash	245.9	322.7	378.4	417.6	463.4	535.6	580.5

(PLN m)	2018	2019	2020P	2021P	2022P	2023P	2024P
EQUITY & LIABILITIES	1,740.3	1,842.7	1,966.9	2,093.6	2,219.0	2,342.1	2,439.1
Equity	876.1	970.8	1,053.2	1,147.8	1,242.3	1,339.2	1,409.7
Non-current liabilities	287.3	257.4	257.4	257.4	257.4	257.4	257.4
Loans and borrowings	175.0	141.7	141.7	141.7	141.7	141.7	141.7
Provision for deferred income tax	43.6	48.7	48.7	48.7	48.7	48.7	48.7
Financial liabilities at fair value	1.3	2.9	2.9	2.9	2.9	2.9	2.9
Other financial obligations (incl. leases)	57.5	59.0	59.0	59.0	59.0	59.0	59.0
Other liabilities	9.8	5.0	5.0	5.0	5.0	5.0	5.0
Current liabilities	576.9	614.6	656.3	688.4	719.3	745.5	772.1
Trade and other payables	182.5	191.8	205.4	215.6	225.3	233.2	241.2
Current income tax liabilities	9.0	8.8	8.8	8.8	8.8	8.8	8.8
Revenue billed under long-term contracts	163.8	172.8	187.0	198.3	209.3	218.8	228.6
Loans and borrowings	40.3	41.1	41.1	41.1	41.1	41.1	41.1
Financial liabilities at fair value	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Other financial obligations (incl. leases)	17.6	19.7	19.7	19.7	19.7	19.7	19.7
Provisions for other liabilities and charges	163.3	180.4	194.2	204.9	215.2	223.9	232.7
Debt	217.8	189.7	189.7	189.7	189.7	189.7	189.7
Net debt	46.3	-58.3	-114.0	-153.2	-199.0	-271.2	-316.1
Net Debt (ex. IFRS 16)	-28.1	-133.0	-188.7	-227.9	-273.7	-345.9	-390.8
Pre-IFRS-16 Net Debt / Equity	0.0	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3
Net debt/ EBITDA**	-0.2	-0.3	-0.5	-0.6	-0.8	-1.1	-1.3
BVPS	107.7	119.4	129.5	141.1	152.7	164.7	173.3

*IFRS16 figures from 2018 **2018 figures are ex-IFRS 16

Cash Flow*

(PLN m)	2018	2019	2020P	2021P	2022P	2023P	2024P
Cash flow from operating activities	159.7	178.8	188.0	179.5	184.5	189.4	193.6
Net profit	30.6	104.8	94.7	106.8	106.7	109.1	111.1
D&A expenses	65.2	84.9	86.8	87.9	90.7	93.9	97.2
Financing activity	14.0	1.0	18.4	3.5	3.5	3.5	3.5
Change in working capital and other	49.9	-12.0	-11.9	-18.7	-16.4	-17.0	-18.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from investing activities	-86.6	-45.0	-82.1	-105.1	-103.5	-81.9	-85.0
CAPEX	-86.6	-45.0	-82.1	-105.1	-103.5	-81.9	-85.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	-35.6	-65.2	-50.2	-35.3	-35.3	-35.3	-63.7
Debt	-9.4	-32.5	0.0	0.0	0.0	0.0	0.0
Share issue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends/Buyback	-12.2	-12.2	-12.2	-12.2	-12.2	-12.2	-40.7
Other (incl. lease payments)	-14.0	-20.6	-38.0	-23.1	-23.1	-23.1	-23.1
Change in cash	37.5	68.6	55.7	39.2	45.8	72.2	44.9
Cash at eop	245.9	322.7	378.4	417.6	463.4	535.6	580.5
DPS (PLN)	1.5	1.5	1.5	1.5	1.5	1.5	5.0
FCF	59.2	113.3	67.9	51.4	58.0	84.4	85.5
CAPEX/Sales	6.3%	3.1%	5.4%	6.5%	6.1%	4.6%	4.6%

*IFRS 16 figures from 2019

Trading Multiples*

	2018	2019	2020P	2021P	2022P	2023P	2024P
P/E	54.2	15.8	17.5	15.5	15.5	15.2	14.9
P/CE	17.3	8.7	9.1	8.5	8.4	8.2	8.0
P/B	1.9	1.7	1.6	1.4	1.3	1.2	1.2
P/S	1.2	1.2	1.1	1.0	1.0	0.9	0.9
FCF/EV	3.6%	7.1%	4.4%	3.4%	4.0%	6.1%	6.4%
EV/EBITDA**	10.7	7.0	6.6	6.3	6.1	5.6	5.3
EV/EBIT**	18.6	11.2	10.5	10.1	9.8	9.1	8.6
EV/S**	1.2	1.1	1.0	0.9	0.9	0.8	0.7
Dividend Yield	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	2.5%
Price (PLN)	204.0	204.0	204.0	204.0	204.0	204.0	204.0
Shares outstanding at eop (millions)	8.1	8.1	8.1	8.1	8.1	8.1	8.1
MC (PLN m)	1,659	1,659	1,659	1,659	1,659	1,659	1,659
EV (PLN m)	1,631	1,601	1,545	1,506	1,460	1,388	1,343

*IFRS 16 figures from 2019 (balance-sheet items are IFRS 16 from 2018) **2018 figures are ex-IFRS 16

List of abbreviations and ratios contained in the report:

EV – net debt + market value
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
P/CE – price to earnings with amortisation
M/CS – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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Comarch

recommendation	hold	buy
date issued	2020-05-13	2019-11-25
target price (PLN)	220.30	250.00
price on rating day	210.00	189.50

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